

| | | |
|---|--|---------------------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision no. 1 |
| Policy Title: Pension Investment Policy | | Page 1 of 10 |
| Creation Date: February 16, 1999 | Version Date: January 28, 2010 | Review date: Annually |
| Authority: Board of Governors | Responsibility: Comptroller | Access: W |

1. Overview

- 1.1 This investment policy statement ("the Statement") applies to the assets held in trust with respect to the *Pension Plan for the Employees of the University of Prince Edward Island* ("the Plan"). It contains investment objectives, investment guidelines, and monitoring procedures
- 1.2 Plan assets ("the Fund") will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which might be construed from the Statement.
- 1.3 With respect to any portion of the Fund invested in pooled funds, provisions of the investment policy statement of such pooled fund shall prevail over those of the Statement to the extent that they are in conflict.

2. Responsibilities

- 2.1 The responsibility for the investment of the Fund lies with the *Pension Investment Review Committee* ("the Committee").
- 2.2 The Committee may delegate some of the required duties with respect to the investment of the Fund to agents and advisors. In particular, the services of a custodian ("the Custodian") and of one or more money managers ("the Manager") are retained. The Committee maintains an active role with respect to the following:
 - 2.2.1 formulation of the Statement and manager mandates;
 - 2.2.2 appointment and monitoring of agents and advisors;
 - 2.2.3 evaluation of performance.
- 2.3 Any person to whom the Committee delegates duties with respect to the investment of the Fund must adhere to the provisions of the Statement.

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 2 of 10 |

3. Conflicts of Interest

3.1 Standard of Care

- 3.1.1 The members of the Board of Governors, and its Finance Committee and its Pension Investment Review Committee, as well as all agents (money managers, custodian, consultant, administrator) employed by the Board, must maintain a standard of prudence and reasonableness in the management of the Board's funds.
- 3.1.2 An agent is defined to mean a company, organization, association or individual, as well as its employees, retained by the Board to provide specific services with respect to the administration and management of the Fund.
- 3.1.3 In carrying out their duties, the Board of Governors and its Finance Committee and its Pension Investment Review Committee must act in the best interest, and for the benefit, of present and future participants in the Fund. Agents, whose duties to the Board are mainly contractual, must act with the skill that can reasonably be expected of a person in their professional position.

3.2 Disclosure

- 3.2.1. In the execution of their duties, members of the board of Governors and its Investment Committee and its Pension Investment Review Committee and their agents shall disclose any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the Fund.
- 3.2.2 Further, it is expected that no Board member or committee member or agent, shall make any personal financial gain (direct or indirect) because of their fiduciary position.

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 3 of 10 |

- 3.2.3 It is incumbent on any party affected by this Statement who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to notify the Chair of the Board. Disclosure should be made promptly after the affected person becomes aware of the conflict. The Chair, in turn, will decide what action is appropriate under the circumstances, but, at a minimum, will table the matter at the next regular meeting of the Board of Governors.
- 3.2.4 No affected person who has or is required to make a disclosure as contemplated in this Statement shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.
- 3.2.5 No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities for the Fund.

4. Plan Characteristics

- 4.1 This pension plan is one which may be described as a “best average salary” defined benefit plan, partially integrated with the Canada Pension Plan.
- 4.2 This means that each members’ retirement pension is calculated as a specified percentage of his or her average salary during the best three years of membership in the plan.
- 4.3 Where death occurs before retirement, the plan also provides for the payment of a pension to the surviving spouse of a deceased member. Subject to minimum service requirements, there is also provision for a waiver of employee contributions during periods of disability.
- 4.4 Both the employee contributions and the benefits are partially integrated with the Canada Pension Plan.

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 4 of 10 |

5. Investment Objectives

- 5.1 The primary objective of the Fund is to satisfy the Plan’s financial liabilities, and to provide, at a reasonable cost, an acceptable level of retirement income to Plan members.
- 5.2 A further objective of the Fund is to maximize investment returns while assuming a level of risk deemed appropriate by the Committee.
- 5.2.1 A Policy Asset Mix has been established which the Committee believes will achieve the above objectives at a reasonable and acceptable level of risk.
- 5.2.2 It is expected that through active management the Fund will earn a return in excess of the return achieved on the Policy Asset Mix portfolio.

6. Permitted Investments

- 6.1 The Fund may only be invested in the following asset categories:
- 6.1.1 cash;
- 6.1.2 demand or term deposits;
- 6.1.3 short term notes;
- 6.1.4 treasury bills;
- 6.1.5 bankers acceptances;
- 6.1.6 commercial paper;
- 6.1.7 investment certificates issued by banks, insurance companies or trust companies;
- 6.1.8 bonds and non convertible debentures;
- 6.1.9 mortgages and other asset-backed securities;
- 6.1.10 convertible debentures;

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 5 of 10 |

- 6.1.11 real estate;
- 6.1.12 infrastructure;
- 6.1.13 timber;
- 6.1.14 common and preferred stocks;
- 6.1.15 private equity;
- 6.1.16 commodities;
- 6.1.17 pooled funds, closed-end investment companies and other structured vehicles invested in any or all of the above asset categories.

- 6.2 The Fund may hold derivative financial, commodity or currency related instruments such as forward contracts, options, futures or swaps in accordance with a program accepted in writing by the Committee.
- 6.3 The Fund will not engage in the following, unless permitted in writing by the Committee:
 - 6.3.1 purchase of securities on margin;
 - 6.3.2 loans to individuals other than to arm's length parties guaranteed by a mortgage;
 - 6.3.3 short sales.
- 6.4 Borrowing on behalf of the Fund is only permitted in order to pay Plan benefits or Committee expenses with the written approval of the Committee; the Fund will not be used to guarantee any borrowing except with respect to investments in real estate and in accordance with written guidelines to that effect. However, unanticipated overdrafts when cash is not sufficient to settle a purchase are expected to occur.
- 6.5 The Committee may enter into a written agreement with the Custodian for securities lending provided that readily marketable securities having a

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 6 of 10 |

market value of at least 105% of the market value of the securities lent are maintained on at least a daily basis.

7. Asset Allocation

7.1 The Fund's Policy Asset Mix is the following:

| <u>Asset Class</u> | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> |
|--------------------|----------------|---------------|----------------|
| Fixed Income | 35% | 40% | 45% |
| Canadian Equity | 25% | 30% | 35% |
| Global Equity | 25% | 30% | 35% |

7.2 The target asset allocation has been determined in order to meet Fund objectives. It reflects a risk/return tradeoff which was assessed by the Committee on the basis of long term prospects in the capital markets taking into account the Plan's benefits, liabilities and financial situation with consideration given to all factors that may affect the funding, solvency and the ability of the Plan to meet its financial obligations.

7.3 Asset categories:

7.3.1 The asset class Fixed Income includes asset categories 6.1.1. to 6.1.13 inclusive and 6.1.17 from 6.1 (Permitted Investments).

7.3.2 The asset classes Canadian Equity and Global Equity include asset categories 6.1.14 to 6.1.17 inclusive from 6.1 (Permitted Investments).

7.4 Within each asset class, the Committee will make long-term strategic decisions to include asset classes as indicated in 7.3. The Committee believes that the use of these asset classes will enable the fund to outperform the Policy Asset Mix portfolio.

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 7 of 10 |

7.5 Benchmarking:

7.5.1 For benchmarking purposes the Fund’s performance will be measured against the Policy Asset Mix portfolio as follows: 40% DEX Universe, 30% S&P/TSX Composite and 30% MSCI World (unhedged) net return index.

7.5.2 Attribution analysis will be performed to measure the impact of the decisions taken in 7.4.

7.6 The long-term expected return of the Policy Asset Mix is an average annual return of 3% - 5% above inflation.

8. Investment Risk

8.1 Diversification between asset classes is provided through the asset allocation guidelines set forth in the Statement.

8.2 Diversification within each asset class is provided by limiting to 10% or less the percentage of the market value of Fund assets invested in a single security not guaranteed by the government of Canada or of a Canadian province and by restricting investments in a group of equities whose returns are expected to be highly correlated.

8.3 Liquidity is provided by limiting investments in real estate and venture capital through the asset allocation guidelines set forth in the Statement, by restricting the use of private placements, by limiting to 10% or less the percentage of a single public issue to be held by the Fund, by limiting to 25% or less the percentage of the Fund to be invested in mortgages or other asset-backed securities, and by requiring that all stocks trade on a recognized exchange unless permission is obtained from the Committee.

8.4 Quality is provided by requiring that 90% or more of the market value of short term securities has a minimum credit rating of A-1 (low) * or its equivalent and that 90% or more of other fixed income securities have a minimum credit rating of B++ * or its equivalent.

8.4.1 *credit ratings issued by a recognized credit rating provider.

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 8 of 10 |

8.4.2 In the event that two or more credit rating provider's have conflicting ratings for the same security, the most conservative rating will apply for the minimum rating criteria above.

8.4.3 An unrated security is assumed to have a rating below the minimum rating above.

8.4.4 Some temporary latitude is allowable in the event of a downgrade of a security below the minimum rating. The manager should inform the Committee as soon as possible following the downgrade to determine a course of action.

8.5 Currency risk is controlled by limiting investments in foreign stocks through the asset allocation guidelines set forth in the Statement and by limiting to 25% or less the percentage of the Fund held in fixed income investments denominated in foreign currencies that are not 100% hedged into Canadian dollars.

9. Rebalancing Asset Mix

9.1 The Committee has set minimum and maximum weights for each of the three major asset classes (Canadian Equity, Global Equity and Fixed Income).

9.2 When one of the major asset classes exceeds the minimum or maximum weight, it will be rebalanced to within 2.5% of its target weight.

9.3 Weightings within the major asset classes will be rebalanced based on targets and liquidity.

9.4 Any real estate holdings, which are included in the Fixed Income asset class as described in 7.3.1 will not be part of the rebalancing process due to the illiquid nature of the investment vehicle (until the maturity of the real estate fund).

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 9 of 10 |

10. Voting Rights

- 10.1 Voting rights on Fund securities are delegated to the Manager. However, the Committee reserves the right to exercise voting rights on Fund securities when it deems appropriate.
- 10.2 The Manager maintains a record of how Fund voting rights have been exercised.
- 10.3 In case of doubt as to the best interests of the Fund, the Manager requests instructions from the Committee, and acts in accordance with such instructions.

11. Monitoring

- 11.1 Each quarter, the Manager provides a letter indicating compliance with the provisions of the Statement indicating instances where such provisions were violated.
- 11.2 As of the end of each quarter, the market value of each Fund investment is calculated. Investments that are not regularly traded are valued by the Custodian according to a methodology acceptable to the Committee. Any such investment that may represent more than 1% of the market value of the Fund is valued by a qualified independent appraiser or by the Committee through a unanimous resolution at least every three years.
- 11.3 Each quarter, Fund performance is evaluated. Such evaluation is focused on objectives set for the Plan and for the Manager.
- 11.4 The Manager reports to the Committee to:
- 11.4.1 provide information concerning new developments affecting the firm and its services;
 - 11.4.2 review the transactions in the latest period and the assets held at the end of the period and explain how they relate to the strategy advocated;
 - 11.4.3 explain the latest performance;

| | | |
|--|---------------------------------|-----------------------|
| University of Prince Edward Island | Policy No. govbrdgnl0011 | Revision No. 1 |
| Policy Title: Pension Investment Policy | | Page 10 of 10 |

11.4.4 provide an economic outlook along with a strategy under such circumstances.

12. Review

12.1 The Statement is reviewed at least annually.

12.2 Material changes in the following may cause a revision:

12.2.1 long term risk/return tradeoff in the capital markets;

12.2.2 plan benefits, liabilities and financial situation;

12.2.3 risk tolerance;

12.2.4 legislative environment.